



The Advisor

for our Active members

A periodic publication of the Massachusetts Teachers' Retirement System as a service to its members

June 2012

HAVE OUTSTANDING SERVICE TO PURCHASE? TAKE NOTE—

The interest charged on certain service purchases will double beginning April 2, 2013

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On April 2, 2012, Chapter 176 of the Acts of 2011, “An Act Providing for Pension Reform and Benefit Modernization,” or what is commonly known as “Pension Reform III,” went into effect.

The most significant provision of this new legislation for our active members is the doubling of the interest rate charged on certain service purchases—from “buyback” interest (currently 4.125%) to “actuarial” interest (currently 8.25%)—if you do not **both apply and pay for** the service within specified timeframes. Specifically, if you are a:

■ **CURRENT member** whose effective membership date is before April 2, 2013 (one year from the effective date of Chapter 176): You will be charged buyback interest if your service purchase application is received by the MTRS before April 2, 2013 **and** you *either* pay for the purchase in full *or* commit to an installment agreement before April 2, 2013, or the invoice due date, whichever is later. On and after April 2, 2013, you will be charged actuarial interest.

■ **FORMER member** of a Massachusetts public retirement system who re-entered membership anytime on or after April 2, 2012: You will be charged buyback interest if your service purchase application is received by the MTRS within one year of your date of re-entry to membership and you either pay for the purchase in full or commit to an installment agreement by the first anniversary of your date of re-entry, or the invoice due date, whichever is later. If you apply to purchase or pay for this service after your first year of re-entry to membership, you will be charged actuarial interest.

Buyback vs. actuarial interest: The difference is substantial

The cost to purchase past service is generally based on what you would have paid in contributions during that period (plus interest

Service purchases subject to this provision

- Refund buybacks (the repayment, with interest, of funds withdrawn by members from their former Massachusetts public retirement systems)
- Massachusetts substitute, temporary or part-time teaching or tutoring service
- Out-of-state public teaching service
- Teaching service rendered at a U.S. Department of Defense overseas dependent school
- Nonpublic, private school teaching service prior to 1973 (out-of-state or in Massachusetts)
- Other Massachusetts nonmembership public employment, such as temporary or seasonal employment with a municipality or state agency

to date) or what you actually paid and withdrew (plus interest to date). Depending on when your service was rendered and how much you earned, the difference between buyback and actuarial interest could be several thousand dollars—or more (see page 6 for various service purchase scenarios and costs).

Does the interest increase also affect service purchases that I...

- **Have already paid for?** No—completed service purchases are not affected by this provision.
- **Am currently paying for by way of an installment plan?** If you are currently paying for a service purchase by way of our five-year installment plan with an interest rate of 4.125%, your installment plan interest rate will remain at 4.125% for the term of your agreement, or, if you should miss a payment, when you default, whichever comes first.
- **Have been invoiced for, but not yet paid for?** Yes—in order to qualify for buyback interest, **you must request an updated invoice prior to April 2, 2013, and** either pay for your service or commit to an installment agreement by April 2, 2013 or the invoice due date, whichever is later.



Jeff Wulfson, Chairman

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Elected by the Membership

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Anne Wass
Appointed by the Governor

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FROM THE CHAIRMAN

We must continue to support responsible, reasonable pension reform

As life expectancies and the economy change, so, too, must the pension system if it is to remain sound for future generations

What can we do to help our public pension systems survive and thrive in an era of taxpayer skepticism? All of us can support the efforts of the Governor and Legislature to enact reasonable reforms to eliminate loopholes and abuses and to adjust the plan to better reflect today's life expectancies and investment returns. The most recent reform legislation, Chapter 176 of the Acts of 2011, is described in detail in this newsletter. Its provisions, many of which will apply only to new members, will help keep Massachusetts public pension plans on a sound financial footing.

And those of us who are privileged to serve as the trustees of your pension plan have the obligation to ensure that it is administered fairly, impartially, and efficiently. I'm proud of the MTRS's reputation for high quality services to its members, but we recognize there is always room for improvement.

At the end of 2011 we said goodbye to four long-serving members of our board: John (Jay) Dow, Linda Ruberto, Ellen Hargraves and John Parsons. Their wisdom and dedication will be missed, and I thank them for their distinguished service. We welcome four new trustees: Anne Wass, Dennis Naughton, and Richard Liston, all of whom are retired educators; and Joannah Quinn, representing Auditor Suzanne Bump. Continuing their service on the board are Karen Mitchell, who teaches in the Plymouth public schools, and Nick Favorito, the executive director of the State Employees Retirement System who represents Treasurer Steven Grossman. They all share a commitment to continued excellence in the administration of the MTRS.

Best wishes for a safe and enjoyable summer.

Stay up to date on retirement issues—

Have retirement updates delivered right to your desktop when you register to receive MTRS M@il!

Just give us your e-mail address and you'll get advance notice of upcoming seminars, important announcements and retirement news delivered right to your desktop. It's easy!



- 1) Go to mass.gov/mtrs.
- 2) Click on **MTRS M@il** in the left margin.
- 3) Complete the simple online form with your MTRS member status (active), name and your e-mail address.
- 4) Watch your e-mail for periodic updates!

New e-mail address? No problem—just send your old and new addresses to us at geninfo@trb.state.ma.us and we'll update our records so that you don't miss any updates!

Board bids farewell to four long-serving members, and welcomes our new representatives

In the past few months, several of our long-serving members have left the Board after many years of dedicated service, and new representatives, who have already hit the ground running, have taken their seats. We thank our departing members for their commitment, hard work and friendship over the years, and welcome our new representatives!

For your many years of dedicated service, thank you to our departing members...



John A.M. Dow, Jr.

Last fall, after 40 years of dedicated service as one of the two Board members elected by the membership, Mr. Dow decided not to seek re-election. One of the longest-serving Board members, Mr. Dow began his teaching career in the Boston public schools, taught in Ipswich

for a few years and then transferred to Marblehead, where he remained for 35 years before retiring in 1989. Mr. Dow showed us and our members great compassion and respect throughout his tenure, and for that, we will be forever grateful.



Linda M. Ruberto

During her 20 years as the Board's appointed member, Ms. Ruberto was active with the National Council on Teacher Retirement, serving as Chairperson of the Resolutions and Education Committees and participating on the Legislative and Nominating

Committees. Prior to her retirement, Ms. Ruberto was a biology teacher in the Pittsfield Public Schools. We are grateful for Ms. Ruberto's service to the educators of Massachusetts and the Board, and we wish her the best.



John Parsons

For more than eight years, Mr. Parsons served as the State Auditor's designee to the Board. A former school teacher and graduate of Bridgewater State College and Suffolk University Law School, Mr. Parsons is now General Counsel with our oversight agency, the Public

Employee Retirement Administration Commission.



Ellen T. Hargraves

A 25-year veteran of the Ayer and Groton-Dunstable School Systems, Ms. Hargraves served as the Governor's appointee to the Board for more than 11 years. During her teaching career, she was also the founder and past-president of the Groton Parent-Teacher

Organization. We are thankful to Ms. Hargraves for her dedication and support over these many years.

...and to our new members, welcome—we look forward to working with you!



Anne Wass

Appointed by the Governor

A current MTRS retiree, Ms. Wass taught sixth grade at Hanover Middle School for 31 years, and also served as president of the MTA. In April 2012, she was appointed to the Board by Governor Patrick for a four-year term.



Richard L. Liston

Appointed by the Board

Prior to his retirement, Mr. Liston was a special education teacher in the Everett Public Schools for 40 years, where he also served as president of the Everett Teachers Association. Mr. Liston represents retired members on the

MTA Board and is co-chair of the MTA Retired Members Committee.



Dennis J. Naughton

Elected by the membership

Now retired, Mr. Naughton began his teaching career in 1968 at Millis Public Schools, where he was a high school social studies teacher for 33 years and principal for three years. Mr. Naughton was elected by the membership in

December 2011 for a four-year term.



Joannah M. Quinn

State Auditor's Designee

Ms. Quinn, appointee of State Auditor Suzanne Bump, is also Ms. Bump's chief legal counsel. She is a graduate of Regis College and Suffolk University Law School.



Our Massachusetts Teachers

Who we are—and regarding our funding

A profile of our membership

Who we are...

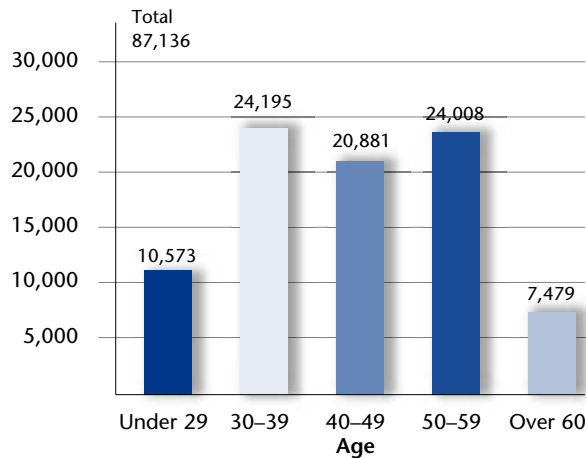
Active members

- Average salary \$63,789
- Average age 44.3 years
- Average service . . 12.9 years
- Total member compensation . \$5.55 billion
- Employee contributions . . \$543 million

Retired members

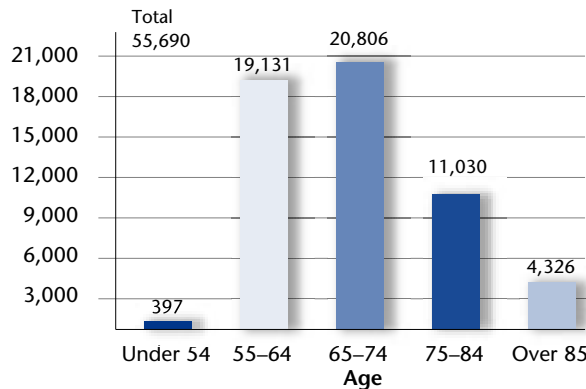
- Average annual benefit. . . \$38,307
- Average age 70.2 years
- Total benefits paid . . \$2.13 billion

Our active members, by age



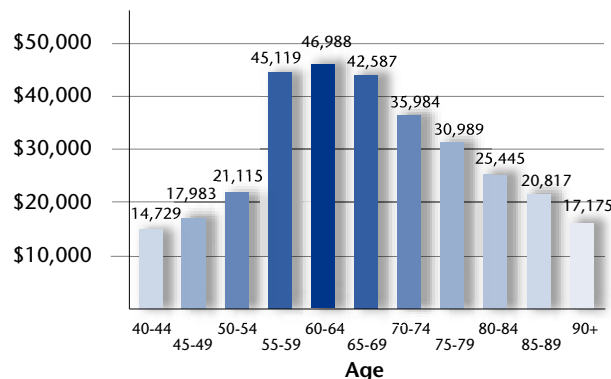
In 2004, the ratio of active members to retirees was 5:2, meaning there were five active members for every two retirees. It is now 3:2.

Our retired members, by age



This population has never been greater, with the number of older retirees continuing to grow—including 1,610 now age 90 or over.

Current average benefits, by age



While the average benefit by age will vary from year to year based on the ages of new retirees, it has steadily increased over the years, as evidenced by a right-to-left reading of the bar graph.

Source: Public Employee Retirement Administration Commission's 2011 Actuarial Valuation of the Massachusetts Teachers' Retirement System, www.mass.gov/perac/teachers/2011teachersval.pdf

Teachers' Retirement System

ing status, where we stand

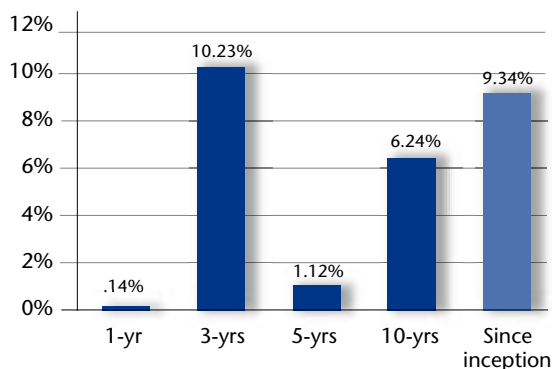
Our funding status: Not where we'd like to be, but up 8% over the past two years

PRIT Fund closed 2011 with a small gain; up 6.1% in first quarter of 2012

Although the Pension Reserves Investment (PRIT) Fund experienced significant losses as a result of the downturn in the economy in 2008, the MTRS's assets in the Fund have been increasing in value. In calendar year 2008, our system's assets in the Fund decreased by \$7.3 billion, to \$17.1 billion. In 2009 and 2010, investment gains were strong, and totaled \$5.52 billion. For the first quarter of 2012, our investment assets grew 6.1%, from \$20.128 billion to \$21.350 billion as of March 31, 2012.

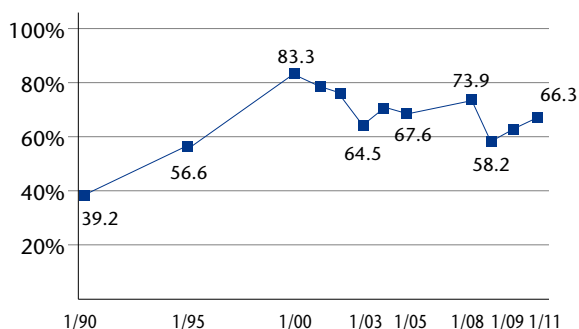
The nine-member Pension Reserves Investment Management (PRIM) Board is chaired by State Treasurer and MTRS Board member Steven Grossman. Also serving on the Board and representing the interests of the teachers' retirement system are MTRS Board member Dennis Naughton and retiree Robert Brousseau, who is in his twenty-fifth year on the PRIM Board. Michael G. Trotsky, CFA is the Executive Director of the PRIM Board.

PRIT core fund performance



The Legislature has set 8.25 percent as the pension fund's long-term rate of return target. The system has averaged 6.24 percent over the past 10 years, and **9.34 percent** since its inception in January 1985.

The MTRS's funded ratio



Over the last 19 years, the system's funding ratio has ranged from a low of 39.2% to a high of 83.3%.

After a steep decrease to 58.2% in 2009, it has risen 8.1%, to 66.3%.

Where we stand...

Plan funding

- Percent **funded** 66.3%
- **Unfunded** liability \$11.7 billion
- Year **fully funded** 2040

The Teachers' Retirement System's assets are invested by the Pension Reserves Investment Management (PRIM) Board. As of December 31, 2011, our System's assets of \$20.128 billion were invested as follows:

- Global equities 44.9%
- Private equities 11.6%
- Fixed income 21.8%
- Real estate 9.6%
- Timber 4.0%
- Hedge funds 7.8%
- Alternative investments 0.3%

For more information about the PRIM Board and the PRIT Fund, visit PRIM's website at mapension.com



Pension Reform III: Highlights for MTRS members

Affecting current **ACTIVE** members with membership dates before April 2, 2012...

Higher costs for certain service purchases *Continued from page 1*

What does this mean for me now?

Generally, the cost of purchasing past service is based on what you would have paid in contributions during that period (plus interest to date) or what you actually paid and withdrew (plus interest to date). **Accordingly, if you wish to purchase service that is subject to the interest increase, you may want to apply for your service purchase as soon as possible, and no later than by the deadline of April 2, 2013, to qualify for the lower “buyback” interest rate of 4.125%. Likewise, if you have previously been invoiced for any of the affected service types—but have not yet paid for your service—you must request an updated invoice prior to April 2, 2013 in order to qualify for buyback interest.** If you wait to apply to purchase the same service (or request an updated invoice) until after April 2, 2013, your cost will be greater because your purchase will be subject to the higher “actuarial” interest rate of 8.25%.

Just how much is the difference between buyback and actuarial interest?

The actuarial interest rate is *double* that of buyback interest. Depending on when your past service was rendered, and how much you earned, the dollar difference can be great.

Example: Tom Teacher was employed as a teacher with the Cambridge Public Schools during the 1974–75 school year. At that time, his MTRS contribution rate was 5%, and his annual salary was \$10,000. After that year, he left teaching to pursue another career and took a refund of his MTRS account; he returned to Massachusetts public teaching service in September 1990 and has been an MTRS member ever since. Now, Tom is thinking about retiring in the next few years, and wants to buy back his 1974–75 teaching service to increase the amount of creditable service used to calculate his retirement benefit.

As shown in the first line of the chart below, and based on an invoice due date of April 30, 2013, if Tom applies to buy back his refund:

- **before April 2, 2013**, he will qualify for **buyback** interest, which would amount to **\$2,299.03**.
- **on or after April 2, 2013**, he will be charged **actuarial** interest, which would amount to **\$9,969.76**.

In Tom’s case, the difference in interest is **\$7,670.73**.

To illustrate the significant difference in buyback and actuarial interest amounts, examples of the costs to purchase one year of service rendered in different years at various annual salaries are shown below.

Prior service information			Service purchase cost information (based on an invoice due date of April 30, 2013)			
School year	MA retirement system contribution rate	Actual annual salary paid	Principal cost (contribution rate X salary)	Interest cost If buyback (4.125%)	Interest cost If actuarial (8.25%)	Amount by which actuarial interest is greater than buyback interest
1974–75	5%	\$10,000.00	\$500.00	\$2,299.03	\$9,969.76	\$7,670.73, or 334%
1979–80	7% + 2% on earnings over \$30K/yr	\$15,000.00	\$1,050.00	\$3,944.46	\$14,085.25	\$10,140.78, or 257%
1989–90	8% + 2% on earnings over \$30K/yr	\$25,000.00	\$2,000.00	\$5,015.09	\$12,143.00	\$7,127.91, or 142%
1999–00	9% + 2% on earnings over \$30K/yr	\$35,000.00	\$3,250.00	\$5,439.79	\$8,941.01	\$3,491.22, or 64%
2005–06	11%	\$40,000.00	\$4,400.00	\$5,778.58	\$7,514.54	\$1,735.96, or 30%

Retirement salary average “anti-spiking” limitation

Affecting members who retire after April 2, 2012, this provision limits the annual increase in pensionable earnings of each of the three years used to determine the final salary average to no more than 10% of the average of the previous two years’ salaries. However, the 10% limit does not apply if, during the three years used to determine your final salary average, you had a bona fide job change, or received payments for additional services that are otherwise eligible for inclusion or other payments that are exempted.

Example: Alan Administrator’s final salary average will be capped at \$145,750 because in each of his last three years, his actual salaries exceeded 10% of the average of his prior two years’ salaries.

School year	Actual salary	Average of prior 2 yrs’ salaries	% difference (10% maximum)	Capped amount
2009–10	\$120,000	n/a	n/a	n/a
2010–11	\$125,000	n/a	n/a	n/a
2011–12	\$135,000	\$122,500	10.2%	\$134,750
2012–13	\$155,000	\$130,000	19.0%	\$143,000
2013–14	\$160,000	\$145,000	10.3%	\$159,500
3-yr salary average...	...is actually \$150,000	...but it will be capped at...		\$145,750

Affecting current and future RETIRED members...

Improved cost-of-living adjustment and increase in certain other benefits

For our retirees, Chapter 176 contained several provisions that increased benefits:

- **COLA base increase:** Increased the COLA base from \$12,000 to \$13,000, resulting in a maximum annual COLA amount of \$390.
- **Same-sex marriage option change:** Allowed members (and surviving spouses of such members) who entered into a same-sex marriage between May 17, 2004 and May 17, 2005, and who retired on or before May 17, 2004 under Option A or B, a one-time limited opportunity to change their retirement to Option C.
- **Pre-1975 maternity leave credit:** Members who took a maternity leave of absence or resigned from teaching due to maternity before January 1, 1975, and who retired before September 1, 2000 at less than the 80% maximum benefit, are eligible to receive up to 4 years of creditable service.
- **Minimum annual pension for members who retired with at least 25 years of creditable service increased to \$15,000.**
- **Minimum monthly spousal survivor benefit increased from \$250 to \$500.**

Increase in the post-retirement employment earnings limitation for Massachusetts public retirees

Pursuant to M.G.L. c. 32, section 91, there are limits on the amount of money that a rehired retiree may earn from post-retirement employment by a Massachusetts public entity. This post-retirement earnings limit is equal to the difference between the salary being paid for the member's former position and the amount of his or her retirement benefit. As a result of Chapter 176, retirees may earn an additional \$15,000 per calendar year beginning with their *second* full calendar year of retirement.

Example: Mary Educator retires on June 30, 2012. For the rest of 2012 and all of 2013, she is subject to the regular earnings limitation; on January 1, 2014, she may earn an additional \$15,000 during calendar year 2014, and each subsequent year.

Date of retirement	Date eligible to earn additional \$15,000
1/1/2012–12/31/2012	1/1/2014
1/1/2013–12/31/2013	1/1/2015
1/1/2014–12/31/2014	1/1/2016

Affecting NEW members who enroll, or re-enroll after taking a refund, after April 2, 2012

Subject to a new benefit tier and a minimum retirement age of 60

New members as of April 2, 2012 (and current members who leave the MTRS, take a refund and return to membership after April 2, 2012), are subject to a new benefit structure. Under this new tier:

- The minimum retirement age has been raised from 55 to 60. **Unlike the current plan, which allows members with 20 years of service to retire at any age, under this new tier, members cannot retire before age 60, regardless of their number of years of creditable service.**
- For each year below age 67, the age factors in the retirement formula have been reduced by **0.0015***; for members with at least 30 years of service, by **0.00125***. **The age at which a member reaches the maximum age factor has been raised by two years—from age 65 to 67.**
- Retirement benefits under the termination formula have been eliminated.
- The contribution rate is reduced by 3% (e.g., from 11% to 8%) once a member has 30 years of creditable service.
- The additional 2% RetirementPlus add-on begins after the 23rd year of creditable service instead of the 24th year of creditable service.

How does this impact new members' retirement benefits?

As shown in the following examples, members subject to this new tier will have to work longer in order to be eligible to retire, and, when they become eligible, will receive retirement benefits that are less than those afforded under the existing tier.

Selected ages	Current factor	New factor (based on years of service)	
		Under 30 years	30+ years
55	0.015	n/a	n/a
58	0.018	n/a	n/a
60	0.020	0.0145	0.01625
62	0.022	0.0175	0.01875
65	0.025	0.022	0.0225
67	0.025	0.025	0.025

- The salary average period used in the retirement benefit formula has been lengthened from 3 years to 5 years.
- The interest charged on certain service purchases will increase if the service is not applied and paid for by April 2, 2013. See page 1 for details.

Retiree's age and yrs service	Current tier and plan		New tier
	Allowable % of 3-year salary average		Allowable % of 5-year salary average
	Regular	RetirementPlus	All RetirementPlus
60/29 yrs	58%	58%*	42.05%*
60/30 yrs	60%	72%	62.75%
58/34 yrs	61.2%	80%	Not eligible to retire!
60/35 yrs	70%	80%	80%

*Retiree does not meet RetirementPlus 30-year minimum creditable service requirement, so not eligible for additional RetirementPlus percentages.

For more information on pension reform, visit our website at mass.gov/mtrs



What's new!

Pension Reform III

Interest charged on certain service purchases to increase April 2, 2013 1

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All members are affected by this recent legislation—know what it means for you

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Farewell to departing members, welcome to our newest representatives

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A profile of who we are and our funding status

The MTRS defined benefit plan: Good for you, good for the state

Providing a steady economic stimulus to Massachusetts communities and the state economy

According to the National Institute on Retirement Security (NIRS), a not-for-profit organization devoted to providing education about retirement issues, state and local government defined benefit plans like ours continue to “provide a steady economic stimulus to Massachusetts communities and the state economy.”

What is a defined benefit plan?

Under a defined benefit plan, your retirement benefit is determined according to a set formula, and the amount is guaranteed regardless of fluctuations in the pension fund's performance. Additionally, your benefit amount is payable for your lifetime.

In contrast, a “defined contribution” plan is dependent on the contributions made by the employee, and possibly by the employer, and the growth of those assets over time as they are invested in the financial markets. A defined contribution plan is very susceptible to fluctuations in the market; nothing is guaranteed.

About the MTRS plan

The MTRS, the largest of the state's 105 contributory retirement systems, is a defined benefit retirement plan as allowed under section 401(a) of the Internal Revenue Code. Your benefit is funded by three sources:

- **Employee contributions**, which are your retirement contributions to the MTRS during your membership, which are invested in the Pension Reserves Investment Trust (PRIT) Fund,
- **Employer contributions**, which are annual appropriations from tax revenues by the Commonwealth (for retirement purposes, your “employer”), and
- **Investment earnings** on the PRIT Fund.

A benefit for all

According to the NIRS, in 2009, expenditures stemming from state and local pensions like ours supported:

- **49,869 jobs** that paid \$2.8 billion in wages and salaries,
- **\$7.8 billion** in total economic output, and
- **\$1.2 billion** in federal, state, and local tax revenues in Massachusetts.

Additionally, each dollar paid out in pension benefits supported \$1.62 in total economic activity in the state, and each dollar “invested” by Massachusetts taxpayers in these plans supported \$4.59 in total economic activity in the state.

For more information, visit www.nirsonline.org.

